ANNUAL REPORT for the year ended December 31st, 1970

THE ALGOMA STEEL CORPORATION, LIMITED

1970

The Steelworks at Sault Ste. Marie, Ontario, with steam from the coke quenching operations reflected in a winter sky

STATISTICAL SUPPLEMENT TO 1970 ANNUAL REPORT

SIGNIFICANT STATISTICS 1961—1970

COMPOSITION OF CONSOLIDATED SALES

	1970 %	1969 %	1968 %	1967 %	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %
Steel products	92	88	91	90	91	89	88	85	81	78
Pig iron	3	6	5	6	6	8	8	11	12	13
Sinter		1	1	1	1	1	1	1	3	4
Coke, coal chemicals and sundry	5	5	3	3	2	2	3	3	4	5
	100	100	100	100	100	100	100	100	100	100

Steel product sales increased sharply as a proportion of total sales in 1970 reflecting higher prices, continuous operations, and lower pig iron sales which resulted from strikes at the plants of a major customer in the United States.

GEOGRAPHICAL DISTRIBUTION OF CONSOLIDATED SALES

	1970 %	1969 %	1968 %	1967 %	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %
Eastern Canada	16	13	12	13	15	14	13	12	13	10
Ontario	58	62	56	56	59	59	58	53	51	52
Western Canada	10	10	12	14	11	12	14	13	12	11
United States	16	15	20	17	15	15	15	22	23	21
Off-shore									1	6
	100	100	100	100	100	100	100	100	100	100

Ontario continued to be Algoma's principal market in 1970.

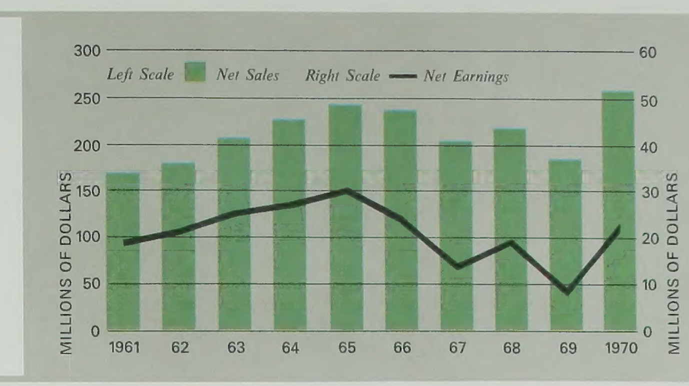
STEEL SHIPMENTS BY PRODUCT CLASSIFICATION

	1970 %	1969 %	1968 %	1967 %	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %
Flat rolled	48	49	49	48	48	51	51	49	44	46
Heavy structurals including wide flange beams	24	23	21	21	21	19	21	20	21	13
Rails and fastenings	7	8	5	7	7	5	7	7	6	6
Bars and light structurals	5	6	6	7	6	5	5	5	6	6
Semi-finished including tube rounds	16	14	19	17	18	20	16	19	23	29
	100	100	100	100	100	100	100	100	100	100

In 1970, shipments of heavy structurals and semi-finished products increased and shipments of other types of products declined as percentages of the total.

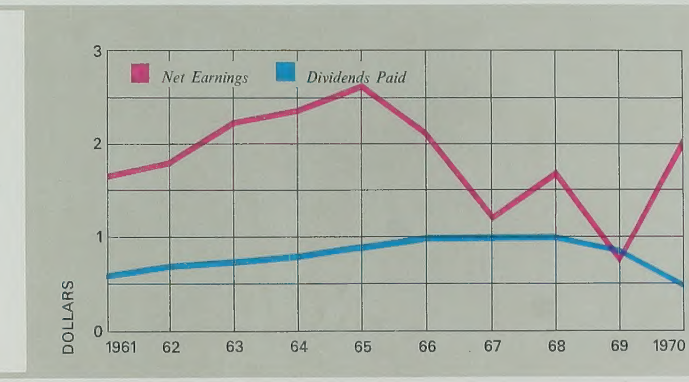
NET SALES AND NET EARNINGS

Both sales and earnings increased substantially in 1970 over 1969 when they were depressed by a three-month shutdown of operations during labour negotiations.



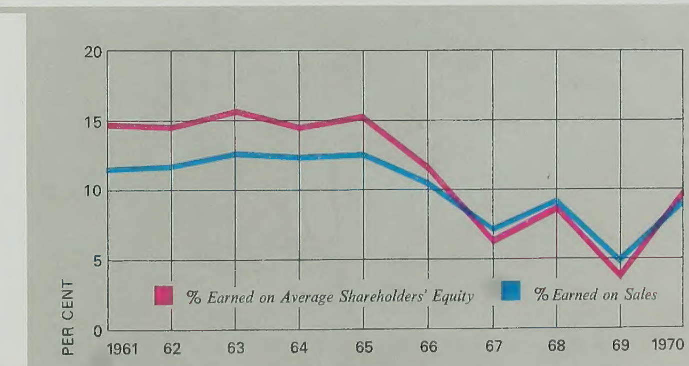
NET EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK

Dividends were paid at 12½ cents per quarter in 1970 and represented 25 per cent of net earnings.



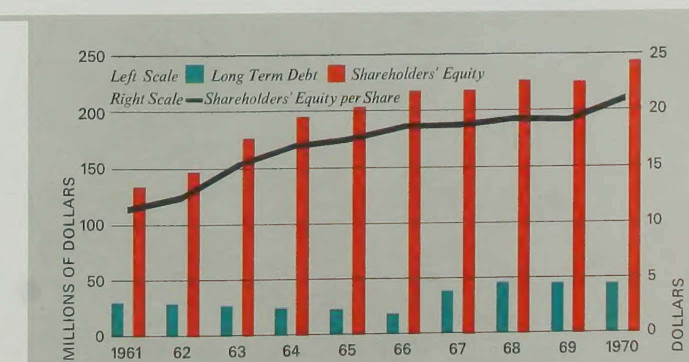
PER CENT EARNED ON AVERAGE SHAREHOLDERS' EQUITY AND ON SALES

Earnings on both average shareholders' equity and on sales at 10 per cent and 9.2 per cent respectively returned to more reasonable levels in 1970.



LONG TERM DEBT AND SHAREHOLDERS' EQUITY

Shareholders' equity increased 7.8 per cent to $21.08 per share in 1970, and at the end of the year long term debt represented 16 per cent of invested capital.



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DIRECTORS

John B. Barber *Vice Chairman and Senior Vice President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
*John D. Barrington *Mining Consultant and company director*	Toronto, Ontario
NO *Sir Philip Dunn, Bart. *Financier and company director* *Resigned February 3, 1971*	London, England
*Ross Dunn, Q.C. *Partner, McMillan, Binch, Barristers and Solicitors*	Toronto, Ontario
David M. Farrell *Secretary, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
*David S. Holbrook *Chairman and President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
No Gilbert W. Humphrey *Chairman, The Hanna Mining Company*	Cleveland, Ohio, U.S.A.
Douglas Joyce *Senior Vice President - Operations, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
NO W. Earle McLaughlin *Chairman and President, The Royal Bank of Canada*	Montreal, Quebec
MacKenzie McMurray *President, Dominion Bridge Company, Limited*	Montreal, Quebec
*M. C. G. Meighen, O.B.E. *Chairman, Canadian General Investments Limited*	Toronto, Ontario
Dr. Egon Overbeck *President, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
Dr. Ulrich Petersen *Member, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
*Dr. G. Wagner *North American Representative, Mannesmann, A.G.*	New York, N.Y., U.S.A.

*Member of Executive Committee

HONORARY DIRECTORS

Hon. T. A. Crerar *Retired Senator*	Victoria, British Columbia
Henry S. Hamilton, Q.C. *Barrister*	Sault Ste. Marie, Ontario
T. R. McLagan, O.B.E. *Chairman of Executive Committee of the Board, Canada Steamship Lines, Limited*	Montreal, Quebec
E. Gordon McMillan, Q.C. *Partner, McMillan, Binch, Barristers and Solicitors*	Toronto, Ontario
Dr. Wilhelm Zangen *Honorary Chairman, Supervisory Board, Mannesmann, A.G.*	Dusseldorf, West Germany

SENIOR OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice Chairman and Senior Vice President
Douglas Joyce	Senior Vice President - Operations
Donald A. Machum	Vice President and Assistant to the President
John Macnamara	Vice President and Works Manager - Steelworks Division
Brian W. H. Marsden	Vice President - Administration
C. Carson Weeks	Vice President - Sales
David M. Farrell	Secretary
C. E. McLurg	Treasurer
Ross H. Cutmore	Comptroller

HIGHLIGHTS OF 1970

(with comparative figures for 1969)

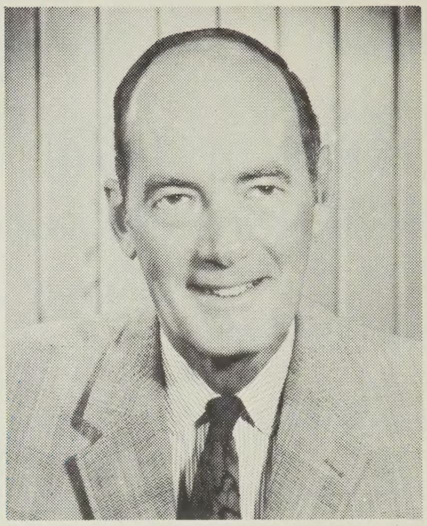
	1970	1969	INCREASE OR (DECREASE)
	(Tons and dollars in thousands except per share data)		
Net sales	*$257,356*	*$183,063*	*$ 74,293*
Net earnings — total	*$ 23,577*	*$ 9,173*	*$ 14,404*
— per share	*$ 2.03*	*$ .79*	*$ 1.24*
— per cent of income	*9.1%*	*4.9%*	*4.2%*
— per cent of average shareholders' equity	*10.0%*	*4.0%*	*6.0%*
Cost of products sold as per cent of net sales	*83.4%*	*87.7%**	*(4.3%)*
Dividends paid — total	*$ 5,804*	*$ 10,157*	*$ (4,353)*
— per share	*$ .50*	*$ .875*	*$ (.375)*
Capital and mine development expenditures	*$ 30,987*	*$ 40,446*	*$ (9,459)*
Depreciation and amortization	*$ 18,293*	*$ 17,532*	*$ 761*
Long term debt at year end	*$ 46,000*	*$ 46,970*	*$ (970)*
Production — iron	*N.T. 2,440*	*1,705*	*735*
— raw steel	*N.T. 2,495*	*1,725*	*770*
Shipments — steel products	*N.T. 1,745*	*1,243*	*502*
Number of shareholders at year end	*17,566*	*16,362*	*1,204*

*4.7 per cent represented direct shutdown expense during labour negotiations.

The Annual and General Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Ontario, Thursday, April 15, 1971 at 2:15 p.m. Eastern Standard Time. A formal notice of the Meeting, an information circular, and a proxy are included with this Report.

PRESIDENT'S LETTER

TO THE SHAREHOLDERS:



Chairman and President
David S. Holbrook

The domestic market for steel products was strong throughout most of 1970 and the Canadian steel industry produced a record 12.2 million tons of raw steel. This represented an increase of about 10 per cent over the previous high of 11.1 million tons in 1968.

Uninterrupted production at close to capacity levels and a strong market resulted in record production of coal, coke, iron and raw steel by Algoma and the highest level of sales ever achieved. Although earnings were at the highest level since 1966, a substantial proportion resulted from a tax credit attributable to tax exemption and depletion on income from leased and owned iron ore properties.

Installation of the 160″ Plate Mill is nearing completion and production trials are scheduled for the third quarter of 1971. About mid-1970 it was decided to proceed with construction of the second L-D oxygen steel plant which is one of the major facilities in the expansion program. The foundations are being poured, fabrication of steel for the building is under way and production is expected late in 1972.

As announced last December, the Corporation is negotiating to lease the seamless tube plant of Mannesmann Tube Company, Ltd. which is adjacent to the Steelworks Division in Sault Ste. Marie. If negotiations are successful, the tube plant will be operated as a Division.

There were regular meetings of the Board of Directors during the year with six in Montreal, four in Toronto and two in Sault Ste. Marie.

The continuing efforts of employees at all levels on behalf of the Corporation are recognized and sincerely appreciated.

D. S. Holbrook

D. S. Holbrook
Chairman and President

Sault Ste. Marie, Ontario
February 3rd, 1971.

REVIEW OF 1970 OPERATIONS

Financial

Sales at $257 million were the highest ever achieved and earnings were $23.6 million. Earnings and cash flow per share were $2.03 and $3.15 respectively. Comparisons with 1969 are not meaningful because both sales and earnings were seriously depressed in that year by a shutdown of operations at the Steelworks and Algoma Ore Divisions for slightly over three months during labour negotiations.

Income from investments amounted to $2.7 million. Regular and extra dividends were received on shareholdings in Dominion Bridge Company, Limited and Canada Steamship Lines, Limited but there was very little other investment income as the Corporation was in a borrowing position throughout most of the year.

The cost of products sold represented 83.4 per cent of sales after being credited with a $1.3 million reduction in the liability recorded on the balance sheet for pensions earned by past service. This credit, which represented about one half of one per cent of sales, was based on a recommendation by the actuarial firm retained by the Corporation and was approved by your auditors. Further increases in the cost of labour, materials, services and utilities absorbed a substantial proportion of increased revenue from higher steel product prices.

Interest on long-term debt was only sightly higher than in 1969 but interest on short-term loans increased to almost $900 thousand. Administrative and selling expenses, which included the cost of several special projects, increased about $300 thousand after credit for a $500 thousand non-taxable recovery on notes of Toronto Iron Works, Limited written off in 1967 as of doubtful value.

Depreciation and amortization policy was not changed and depreciation on plant and equipment, other than for mining, was accrued on a straight-line basis at rates intended to write off the cost of the assets over their expected useful lives; costs of mining equipment and mine development were amortized at rates calculated to write them off over estimated recoverable reserves. The increase in depreciation and amortization over 1969 reflects the cost of new facilities brought into operation and the mining of larger tonnages.

The substantial deferred income tax credit is again attributable mainly to tax exemption on income from the leased mine at Steep Rock Lake and depletion claimed for income tax purposes. The three-year tax exempt period on income from the mine at Steep Rock Lake expired in September and it has not yet been determined whether three-year tax exemption will be granted on income from the Ruth and Lucy Mine which was brought into production in 1968.

Dividends were paid at a quarterly rate of 12.5 cents per share and the Department of National Revenue has advised that Canadian shareholders of the Corporation qualify to deduct 20 per cent depletion allowance for income tax purposes on dividends paid in 1970.

The ratio of current assets to current liabilities at the end of the year was 1.7 to 1. Cash flow from operations provided the funds for retirement of long-term debt, funding pensions, dividends, and substantial increases in accounts receivable and inventories; however, it was not sufficient to finance capital expenditures and short-term borrowing resulted in a reduction of $3 million in working capital. The increases in accounts receivable and inventories are attributable to the fact that they were at abnormally low levels at the end of 1969 as a result of the extended shutdown of operations that year and to sustained higher rates of operation in 1970. Long-term financing is being arranged to repay short-term loans and provide funds for capital expenditures.

Purchases of $970 thousand series A debentures were made at favourable prices for the 1971 sinking fund requirement.

The credit of $1.3 million to cost of products sold to reduce the liability for past service pension cost, already referred to, and payment of $600 thousand into pension funds reduced accrued past service pension cost by $1.9 million.

Interim receivership of The Toronto Iron Works, Limited was discharged in February 1970 after approval of a reorganization plan by the shareholders of that Company and Algoma received a debenture for $2.6 million due in September, 1970 as additional security for accounts and notes receivable owed by Toronto Iron. By supplementary agreement in September, the due date on this debenture was extended to March, 1971; interest was received on it and $600 thousand was paid on the principal amount. A plan for reorganization of Wimco Steel Sales Company, Limited, a bankrupt, which is a wholly-owned subsidiary of Toronto Iron, has been submitted for court approval.

Total issued and outstanding shares remained unchanged at 11,608,434 and the number of shareholders increased about 7 per cent to 17,566.

A detachable Statistical Supplement giving a comparison of financial and operating results for the past 10 years is bound in the front of this Report.

Sales

Shipments of rolled steel products reached an all time high in 1970 and total shipments of steel products, which amounted to 1.75 million tons, were the second highest ever achieved. Off-shore shipments were again negligible and exports to the United States represented about 16 per cent of total shipments. Sales of pig iron were 16 per cent lower than in 1969 and 112 thousand tons of Algoma Sinter were sold to customers in the United States.

Demand for pig iron and steel products was strong through most of the year; however, in the fourth quarter, there were prolonged strikes at the plants of a major customer and the market for pig iron and sheet and strip products softened. The tonnage represented by orders on hand at the end of the year was lower than at the beginning of the year but higher than at the end of 1968.

Between November 25th and the end of the year the prices of most rolled steel products were increased about 4.5 per cent. The average net return realized on total steel product sales rose from $129.39 per ton in 1969 to $135.15, mainly because of price increases late in 1969. The Federal Prices and Incomes Commission reviewed the 1969 price increases by companies in the Canadian steel industry and its Report confirmed that costs were rising rapidly in the industry and would probably continue to rise from 1970 to 1972; it also agreed that the 1969 increases approximately balanced cost increases between 1970 and the three prior years. The Commission is reviewing the price increases late in 1970 and Algoma is confident that they will be found to be less than the increase in costs and within the Government's voluntary price guidelines.

The decline in the premium on the United States' dollar relative to the Canadian dollar since June, coupled with the steel product price increases in Canada and with those in the United States in 1970 and to be effective in March 1971, has made the prices of the Corporation's products slightly less attractive in export markets than a year ago. With respect to the Corporation's exchange position in United States' dollars, receipts marginally exceeded payments in 1970.

Systems were installed for the transmission of customer orders for many products from district sales offices directly into a central computer. Speed and accuracy in handling orders increased and production control centers in mills, computer based scheduling and order tracking systems increased production efficiency and improved the handling of inquiries from customers. Similar systems are being installed in the 160″ Plate Mill and other operating departments.

Operations

Production in 1970 was:

		(thousands of tons)
Algoma Sinter	G.T.	1,511
Coal	N.T.	2,701
Coke	N.T.	1,619
Iron	N.T.	2,440
Raw Steel	N.T.	2,495

With continuous operations, records were established in the production of coal, coke, iron and raw steel. Production of Algoma Sinter was restricted during the first three quarters of the year to enable the Steelworks Division to use up pellets stocked during the shutdown in 1969.

Algoma Sinter and pellets from the leased mine at Steep Rock Lake represented about 90 per cent of the iron-bearing materials used in the blast furnaces. Limestone was introduced into the ore mix in the sintering operation at Wawa during the last half of the year and super-fluxed sinter is now produced which reduces the amount of coke required to produce iron in the blast furnaces and increases their productivity.

Sixty per cent of the raw steel was again produced in the L-D oxygen steel plant and the balance in the open hearth furnaces.

Production of blooms and shaped sections on the continuous casting machines was the highest since they were installed and the proportion of production represented by shaped sections increased. Trials continued on casting blooms for rolling into rounds to be used for the production of seamless tubes; the results of these and of tests by railroads on rails produced from continuously cast blooms are encouraging.

Continued testing of high-chrome rails in actual service by railways established that they should last up to three times as long as carbon steel rails and railways are making tests to develop procedures for welding this type of rail.

For the first time, ingots were continuously rolled through the Bloom and Plate and Strip Mills into coiled flat rolled product which resulted in improvements in the overall yield of shipped products from raw steel; extension of this practice is expected to provide further economies.

Agreements were entered into with companies which specialize in preparing and marketing scrap and these have already yielded increased revenue and cost reductions.

The Algoma Ore Division produced 2.33 million tons of ore from the George W. MacLeod underground mine and about 160 thousand tons from the Ruth and Lucy Mine and virtually all of the Algoma Sinter produced therefrom was used by the Corporation in its blast furnaces. Operations at the Ruth and Lucy Mine were discontinued at the end of June because ore from this mine has not been required since that time.

Cannelton Coal Company produced a larger tonnage of coal than in any previous year. An underground high volatile coal mine, which had been mined out, was closed and development of a new mine (No. 10) was started.

The Corporation is negotiating to acquire additional high volatile coal reserves adjacent to existing properties, a new underground low volatile coal mine is being developed and plans are being made to develop a new low volatile mine on a property purchased in 1965.

Improvements, Additions and Alterations

Capital and mine development expenditures totalled $31 million and the following major projects were completed at the Steelworks:

Construction of a new ingot mould yard to improve the quality of steel and facilitate production of higher grade steels;

Relocation of a coil conveyor in the 106″ Wide Hot Strip Mill to facilitate installation of the 160″ Plate Mill;

Extension of the structural finishing building and installation of additional handling facilities;

Improvements in the ventilating and heating system in the Ingot Mould Foundry;

Construction of a railway car repair shop to replace a shop destroyed by fire.

Projects under way at the end of the year and to be undertaken in 1971 are as follows:

Installation of new raw material storage and handling facilities;

Replacement of equipment to remove tar and gums from coke oven gas to purify it for use as fuel;

Relining of a large blast furnace (No. 5), replacing equipment to permit operating at higher temperatures, reinforcing the highline and replacing stockhouse bins;

Construction of a second L-D oxygen steel plant which will increase annual raw steel production capacity to four million tons when other major facilities in the expansion program are installed;

Installation of a second lime kiln to produce burnt lime for the second L-D oxygen steel plant;

Replacing tables on the 44″ Blooming Mill;

Installation of a flame scarfing machine on the Bloom and Plate Mill to remove surface imperfections from slabs;

Installation of a higher pressure hydraulic spray system on the Bloom and Plate Mill to remove surface scale;

Installation of improved strip cooling equipment on the 106″ Wide Hot Strip Mill;

Completion of the 160″ Plate Mill;

Extension of a building and addition of a crane to improve the handling of steel in the 30″ Rail and Structural and Parallel Flange Beam Mill bloom yard;

Installation of equipment for cleaning gas from the Steelworks' Sinter Plant;

Installation of thickening equipment to recover metallics and improve the quality of water discharged to the St. Mary's River;

Installation of equipment on the 44″ Blooming Mill, the Bloom and Plate Mill and the Lime Plant to improve the quality of air discharged to the atmosphere;

Installation of equipment to mix natural gas and air in the proportions required to provide fuel with constant heating qualities;

Alterations to the main Stores Building and erection of a Shipping Arrangements Office to meet the needs of the expanding Steelworks.

At the Algoma Ore Division, the only major expenditure, other than on mine development and equipment, was to renovate coke crushing equipment. Expenditures were made at Cannelton Coal Company to equip the preparation plant to recover coal previously discarded, develop new mines, and replace mining equipment. There were no major expenditures at the Canadian Furnace Division.

Employee, Community and Public Relations

Relations between employees and supervisors improved, there were no work stoppages at the Steelworks, Algoma Ore or Canadian Furnace Divisions, fewer grievances were received, and they were virtually all resolved without arbitration. Meetings at the Steelworks to inform union leaders of developments in the Corporation and discuss matters of mutual interest have achieved worthwhile results.

A changed approach to resolving problems with individual employees was adopted, with increased emphasis on understanding and finding solutions rather than discipline. Use of demerit points will replace time-off penalties in many cases.

Improved communications with employees were implemented to increase mutual understanding:

> A newspaper is published monthly and a recorded message can be heard daily on the Steelworks' telephone system; these give information about the Corporation and employees;
>
> Suggestion months were instituted with the primary objective of enlisting the support of all employees in improving performance; two were held and valuable suggestions were received and adopted, with suitable awards made;
>
> Meetings were held by department managers with their employees at all levels, at which developments affecting the Corporation and their department were analyzed and freely discussed, with full explanations given.

Training programs were increased with the objective of ensuring that employees keep abreast of new developments related to their occupations and have the opportunity for further education up to and including college degrees. Experienced consultants conducted training sessions and employees attended courses at recognized educational institutions. Cambrian College in Sault Ste. Marie conducted courses for the training of tradesmen, and the Corporation granted credit to graduates toward trade certification. A program was started to assess individual employees according to their interests, experience and ability with the objective of increasing opportunities for their personal growth and development.

A new approach to developing safe working conditions and habits involves assignment of production and maintenance foremen to the Safety Section to work full time for several months in their own Divisions on safety matters. These employees are completely familiar with operations and this program is expected to result in practical recommendations and to instil in the foremen an increased awareness of safety which they will take back to their jobs.

In response to requests, a Voluntary Stock Purchase Plan is being instituted which will enable employees to purchase the Corporation's shares by payroll deductions.

The Corporation continued to recruit personnel from Canadian universities and institutions and there was an increase in the availability of graduates. Several hundred students were employed during the summer with the first job opportunities offered to the sons and daughters of employees.

Community leaders were taken on a tour of two major facilities which will contribute to better environment in Sault Ste. Marie — a terminal sewer settling basin where the quality of water is improved before it is discharged to the St. Mary's River, and a phenol recovery plant which purifies coke plant effluent. In addition, employees explained at public meetings what is being done to improve air and water quality.

Employees also participated in service, cultural, educational and religious organizations and in addition to encouraging this, Canadian fund-raising activities were again supported on a selective basis by the Corporation.

Employee recreation programs were expanded and are almost entirely directed by the participants and other interested employees.

There were four work stoppages at Cannelton Coal Company because of activities of picketers from other mines and picketers representing disabled miners. These closed down the Pocahontas Division for 12 days and the Kanawha Division for 11 days.

Changes in Board and Senior Management

At the Annual Meeting of Shareholders on April 16, 1970, T. R. McLagan, who had been a member of the Board of Directors since 1952 and of the Executive Committee since 1953, was ineligible for re-election and he was elected an Honorary Director. D. M. Farrell, Secretary of the Corporation, was elected to the Board.

On February 3rd, 1971, the Board accepted with regret the resignation of Sir Philip Dunn, Bart. who had been a member of the Board and of the Executive Committee since 1952.

In December, J. B. Barber, Vice President - Finance, was elected Vice Chairman and Senior Vice President, and D. Joyce, Vice President - Operations, was elected Senior Vice President - Operations.

The following senior management appointments were announced in December to recognize the growth and development of the Corporation and in anticipation of an increasing volume of business. D. A. Machum was appointed Vice President and Assistant to the President (formerly Vice President - Administration); B. W. H. Marsden, Vice President - Administration (formerly Steelworks General Superintendent); Dr. J. Macnamara, Vice President and Works Manager (formerly Division Superintendent - Primary Production); P. M. Nixon, Assistant Vice President - Raw Materials (formerly Assistant to the Vice President - Operations); and R. G. Paterson, Assistant Vice President - Engineering and Construction (formerly General Manager - Engineering and Construction).

Outlook

Compared to the relatively slow growth in the Canadian economy in 1970, it is generally predicted that there will be a gradual upswing this year gaining momentum as the year progresses. This is expected to result mainly from easing of interest rates, increased consumer spending, acceleration in residential construction and a continuing high level of government expenditures.

Warehouse stocks of steel products are at high levels, demand for plate is not as strong as it was in the first half of 1970 and the construction industry is having a comparatively weak first quarter. However, if the general predictions are realized, Canadian demand for steel products should be reasonably strong throughout 1971 with growth in the consumption of finished steel products.

There will probably be higher imports of steel products into Canada with the easing in world demand and decline in economic activity in Western Europe and Japan. On the other hand, Canadian steel producers will likely benefit from "hedge" buying by steel users in the United States in anticipation of a possible shutdown in the steel industry there during labour negotiations and exports from Canada will likely increase.

D. S. HOLBROOK

CHAIRMAN and PRESIDENT

CONSOLIDATED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

		1970	1969
INCOME	Net sales	$257,356,269	$183,063,181
	Investments	2,737,576	3,136,801
		260,093,845	186,199,982
EXPENSES	Cost of products sold	214,518,283	160,468,233
	Rearranging plant	156,794	102,322
	Administrative and selling (after deducting $500,000 recovery in 1970 on doubtful notes receivable)	5,927,576	5,608,795
	Interest on long term debt	3,095,710	3,087,074
	Interest on short term loans	894,674	—
	Depreciation and amortization	18,293,020	17,532,369
		242,886,057	186,798,793
EARNINGS	(Loss) Before Income Taxes	17,207,788	(598,811)
INCOME TAXES	Current (Note 2)	255,365	(2,143,000)
	Deferred (Note 2)	(6,625,000)	(7,629,000)
		(6,369,635)	(9,772,000)
NET EARNINGS		$ 23,577,423	$ 9,173,189
NET EARNINGS	Per Share	$ 2.03	$ .79

CONSOLIDATED RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

	1970	1969
Balance at beginning of year	$215,956,221	$216,940,411
Net earnings	23,577,423	9,173,189
	239,533,644	226,113,600
Dividends paid	5,804,217	10,157,379
Balance at end of year	$233,729,427	$215,956,221

See Notes to Consolidated Financial Statements on Page 16.

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

		1970	1969
FUNDS WERE PROVIDED BY	Cash flow from earnings		
	Net earnings	$23,577,423	$ 9,173,189
	Transactions not resulting in an outlay of funds:		
	Depreciation and amortization	18,293,020	17,532,369
	Income tax applicable to future years	(6,625,000)	(7,629,000)
	Excess of accruals over expenditures on operating reserves	1,341,140	300,347
		36,586,583	19,376,905
	Investments reserved for expansion at end of previous year	—	10,000,000
	Other – net	64,093	200,683
		36,650,676	29,577,588
FUNDS WERE APPLIED TO	Plant and equipment additions	30,161,403	39,475,484
	Mine development	825,724	970,770
		30,987,127	40,446,254
	Purchase of series A debentures	970,000	146,000
	Reduction of accrued past service pension cost	1,927,351	638,358
	Payment of dividends	5,804,217	10,157,379
		39,688,695	51,387,991
WORKING CAPITAL	Decrease during year	3,038,019	21,810,403
	At end of year	$45,511,033	$48,549,052

See Notes to Consolidated Financial Statements on Page 16.

THE ALGOMA STEEL CORPORATION

CONSOLIDATED

AS AT DECEMB

ASSETS	1970	1969
CURRENT		
Marketable investments at cost which approximates market . .	$ 1,215,929	$ 2,015,290
Accounts receivable	42,045,196	25,923,884
Income and refundable taxes recoverable	381,022	2,233,036
Inventories (Note 3)	66,643,646	57,082,981
Prepaid expenses	2,260,044	1,899,380
Total current assets	112,545,837	89,154,571
NON-CURRENT ACCOUNTS AND NOTES RECEIVABLE . .	627,319	735,210
INVESTMENTS AT COST		
Marketable . . . . (market value 1970 $38,646,651 – 1969 $34,351,522)	30,297,124	30,297,282
Other	191,950	212,955
	30,489,074	30,510,237
FIXED ASSETS		
Property, plant and equipment at cost (Note 4)	496,083,925	466,728,702
Mine development at cost	15,188,196	14,697,394
	511,272,121	481,426,096
Accumulated depreciation, depletion and amortization	238,752,428	220,049,331
	272,519,693	261,376,765
	$416,181,923	$381,776,783

See Notes to Consolidated Financial Statements on page 16

Approved on behalf of the Board

D. S. HOLBROOK Director

W. E. McLAUGLIN Director

BALANCE SHEET

1970 AND 1969

LIABILITIES	1970	1969
CURRENT		
Cheques outstanding less cash on deposit	$ 6,009,475	$ 2,767,978
Notes payable – secured by assignment of accounts receivable and inventories		
– Bank loan	1,229,000	—
– Bankers acceptances	19,000,000	—
Accounts payable and accrued liabilities	37,993,744	35,916,521
Income and other taxes payable	2,802,585	1,921,020
Total current liabilities	67,034,804	40,605,519
LONG TERM DEBT – SECURED (Note 5)		
5¼% series A sinking fund debentures	16,000,000	16,970,000
7⅜% series C sinking fund debentures	30,000,000	30,000,000
	46,000,000	46,970,000
ACCRUED PAST SERVICE PENSION COST (Note 6)	18,993,947	20,921,298
DEFERRED INCOME TAXES (Note 2)	39,488,000	46,388,000
SHAREHOLDERS' EQUITY (Note 7)		
Capital stock		
Authorized – 30,199,760 shares of no par value		
Issued – 11,608,434 shares	10,935,745	10,935,745
Retained earnings	233,729,427	215,956,221
	244,665,172	226,891,966
	$416,181,923	$381,776,783

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as of December 31, 1970, and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Ontario
January 15, 1971

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1970

(1) PRINCIPLES OF CONSOLIDATION

The statements include those of companies in which the Corporation owns over 50 per cent of the voting shares. All operating subsidiaries are wholly-owned and include Cannelton Coal Company, Yankcanuck Steamships Limited and Sault Windsor Hotel Limited. Cannelton is a United States subsidiary; its assets and liabilities are included at par of exchange and if these were converted to Canadian dollar equivalent, there would not be any material effect on the financial position of the Corporation.

(2) INCOME TAXES

The $6,625,000 deferred income tax credit in the earnings statement results principally from recording a greater amount of depreciation than the amount to be claimed for tax purposes. In the balance sheet this tax credit is deducted from Deferred Income Taxes which are applicable to future periods when amounts claimed for depreciation for tax purposes may be less than amounts recorded.

Income from the leased mine at Steep Rock Lake was exempt from income tax for a period of 36 months commencing October 1, 1967 and terminating September 30, 1970. The approximate effect of this exemption was to reduce the provision for income taxes by $7,444,000.

(3) INVENTORIES

Finished products and work in process are valued at the lower of cost or net realizable value, and raw materials and supplies are valued at the lower of cost or replacement cost. Inventories at December 31, 1970 and 1969 are:

	1970	1969
	(millions of dollars)	
Finished products	$14.6	$ 9.0
Work in process	13.8	11.7
Raw materials and supplies	38.2	36.4
	$66.6	$57.1

(4) COMMITMENTS

Commitments of approximately $36 million on an expansion program are outstanding at December 31, 1970 for capital expenditures to be made in 1971 and subsequent years.

(5) LONG TERM DEBT

Series A debentures become due May 15, 1978 and all or any part may be redeemed at any time. The debentures are secured by a Trust Deed under which a sinking fund must be provided to redeem $1 million in each of the years 1971 to 1977 inclusive. At December 31, 1970, $1 million of debentures are redeemed in advance and are available to meet future sinking fund requirements.

Series C debentures become due October 1, 1987 and all or any part may be redeemed at any time. These debentures rank pari passu with series A debentures and are secured by a Supplemental Trust Deed under which a sinking fund must be provided to redeem $1.2 million in each of the years 1972 to 1986 inclusive.

(6) PENSIONS

The unfunded amount for pensions earned by past service under pension plans is estimated at $40 million by an independent actuary and $23 million was accrued in the accounts to December 31, 1970, of which $3.6 million is included in current liabilities in the balance sheet. This unfunded amount includes an increase of $3.2 million resulting from revisions in pension agreements effective January 1, 1970. Payments to cover current and past service requirements, as determined by the actuary, are made each year into trust funds. These payments are designed to fund pensions earned by past service by 1989 and the portion not accrued in the accounts to date will be accrued in approximately equal amounts to 1989.

(7) SHAREHOLDERS' EQUITY

As long as series A debentures are outstanding the Corporation must meet certain financial requirements before paying dividends or reducing share capital. These requirements are exceeded by a substantial amount.

No options were granted during 1970 under the stock option plan for certain employees. There are unexercised options at December 31, 1970 on 2,000 shares terminating in 1971, 69,750 in 1974 and 26,000 in 1979 at prices of approximately $15 per share.

(8) REMUNERATION

Total remuneration of directors and senior officers amounted to $592,137.

(9) LAWSUITS

The Corporation is defendant in a lawsuit commenced in September, 1968 involving a substantial amount. In the opinion of the Corporation's General Legal Counsel, there is no basis for any of the claims made against the Corporation in that suit. In August 1969 another action was commenced against the Corporation but the amount claimed and the exact nature of the claim has not been specified by the Plaintiffs. In the opinion of the Corporation's General Legal Counsel, the result of this action will not have any material effect on the financial position of the Corporation.

EXECUTIVE OFFICES	Sault Ste. Marie, Ontario
WORKS AND OPERATIONS	The Algoma Steel Corporation, Limited Steelworks Division, Sault Ste. Marie, Ontario Canadian Furnace Division, Port Colborne, Ontario Algoma Ore Division, Michipicoten District, Ontario Cannelton Coal Company Kanawha Division, Cannelton, West Virginia Pocahontas Division, Superior, West Virginia

THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION	Under the laws of the Province of Ontario
SHARE TRANSFER AGENTS AND REGISTRARS	Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver The Royal Bank of Canada Trust Company, New York
TRUSTEE FOR DEBENTURES	Montreal Trust Company, Toronto, Ontario
REGISTRAR FOR DEBENTURES	Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

COMPARISON OF FINANCIAL AND

SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

Year	Production: Coal *net tons*	Production: Algoma Sinter *gross tons*	Production: Iron *net tons*	Production: Raw steel *net tons*	Shipments of steel products *net tons*	Income $	Cost of products sold $	Rear-ranging plant $	Adminis-trative and selling $	Interest & expense on debt $	Depreciation and amortization $	Income taxes $	Net earnings $
1970	2701	1511	2440	2495	1745	260.1	214.5	.2	5.9	4.0(1)	18.3	(6.4)	23.6
1969	2301	1142	1705	1725	1243	186.2	160.5	.1	5.6	3.1	17.5	(9.8)	9.2
1968	2253	1723	2189	2261	1549	220.0	174.3	.7	5.1	3.0	18.6	(1.5)	19.8
1967	1841	1562	1957	2073	1451	203.6	159.0	.2	5.6	1.5	17.6	4.5	14.2(2)
1966	1685	1805	2241	2347	1715	239.0	174.5	.8	5.7	1.2	16.5	15.5	24.8
1965	1674	1822	2289	2486	1768	244.4	169.4	.1	4.8	1.3	15.1	22.9	30.8
1964	1591	1781	2261	2301	1670	226.8	157.5	.7	4.6	1.4	14.5	20.5	27.6
1963	1672	1618	2077	2092	1520	205.8	141.7	.5	4.3	1.5	13.1	18.8	25.9
1962	1443	1460	1772	1759	1297	180.2	127.4	.7	3.7	1.5	11.6	14.2	21.1
1961	1443	1631	1732	1650	1228	169.7	123.4	.8	3.4	1.6	10.5	10.5	19.5
1960	1443	1707	1427	1278	949	143.3	105.5	.9	3.2	1.6	10.0	8.8	13.3

SOURCE AND APPLICATION OF FUNDS (millions of dollars)

Year	Source: Net earnings $	Source: Depreciation and amortization $	Source: Deferred taxes on income $	Source: Sale of invest-ments $	Source: Long term debt $	Source: Other — net(3) $	Application: Fixed assets $	Application: Investments reserved for expansion $	Application: Reduction of debt $	Application: Divi-dends $	Application: Invest-ments $	Application: Refund-able 5% tax $	Increase in working capital $
1970	23.6	18.3	(6.6)			(.5)	31.0		1.0	5.8			(3.0)
1969	9.2	17.5	(7.6)			9.8	40.4		.1	10.2			(21.8)
1968	19.8	18.6	(3.7)		9.3	10.9	23.2	10.0	1.9	11.6		(.8)	9.0
1967	14.2	17.6	5.3		20.7	6.7	39.0	10.0		11.6		(.8)	4.7
1966	24.8	16.5	6.5			15.2	33.5	10.0	4.8	11.6	1.5	1.6	
1965	30.8	15.1	9.1			.6	25.2	15.0	3.1	10.4			1.9
1964	27.6	14.5	11.6			16.3	37.5		1.7	9.3	27.5		(6.0)
1963	25.9	13.1	5.7	16.1		9.4	31.5	15.0	1.8	8.7			13.2
1962	21.1	11.6	4.6			11.3	33.2	9.0	1.3	8.1			(3.0)
1961	19.5	10.5	3.4			2.0	18.0	10.0	.7	7.0			(.3)
1960	13.3	10.0	3.1			14.8	26.4		1.4	7.0			6.4

(1) Includes $.9 million interest on short term loans.
(2) After an extraordinary charge of $1.0 million.
(3) Includes investments reserved for expansion at end of previous year.

IMITED AND SUBSIDIARIES

PERATING RESULTS 1970 - 1960

STATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data (4))

Year	Cash dividends $	Net earnings retained in business $	Cash flow from earnings $	Per share: Net earnings $	Per share: Cash dividends $	Per share: Cash flow $	Cost of products sold as % of net sales %	Income taxes as % of income %	Net earnings as % of: Income %	Net earnings as % of: Average shareholders' equity %	Net earnings as % of: Average invested capital(5) %
1970	5.8	17.8	36.6	2.03	.50	3.15	83.4	(2.5)	9.1	10.0	8.9
1969	10.2	(1.0)	19.4	.79	.875	1.67	87.7	(5.2)	4.9	4.0	3.9
1968	11.6	8.2	35.9	1.70	1.00	3.09	80.6	(.7)	9.0	8.8	8.0
1967	11.6	2.6	35.1	1.22	1.00	3.03	79.3	2.2	7.0	6.5	6.0
1966	11.6	13.2	48.0	2.14	1.00	4.13	74.1	6.5	10.4	11.7	10.9
1965	10.4	20.4	55.6	2.66	.90	4.80	70.0	9.4	12.6	15.3	13.9
1964	9.3	18.3	55.0	2.38	.80	4.74	70.0	9.0	12.2	14.7	13.1
1963	8.7	17.2	45.1	2.24	.75	3.89	69.5	9.1	12.6	15.8	13.8
1962	8.1	13.0	38.6	1.82	.70	3.33	71.5	7.9	11.7	14.7	12.6
1961	7.0	12.5	35.3	1.68	.60	3.05	73.6	6.2	11.5	14.9	12.5
1960	7.0	6.3	27.1	1.15	.60	2.35	74.9	6.1	9.3	11.0	9.2

BALANCE SHEET SUMMARY (millions of dollars excepting per share data (4))

Dec. 31	Working capital $	Non-current receivables $	Invest-ments $	Investments reserved for expansion $	Net fixed assets $	Deferred charge $	Long term debt $	Accrued past service pension cost $	Deferred income taxes $	Deferred earnings on advance sales $	Share-holders' equity $	Share-holders' equity per share $	Number of shares issued (000)	Number of share-holders
1970	45.5	.6	30.5		272.6		46.0	19.0	39.5		244.7	21.08	11608	17566
1969	48.6	.7	30.5		261.4		47.0	20.9	46.4		226.9	19.55	11608	16362
1968	70.4	.7	30.4	10.0	239.0	9.9	47.1	20.7	64.7		227.9	19.63	11608	14796
1967	61.4	1.6	30.4	10.0	235.7	6.5	39.7	17.8	68.4		219.7	18.93	11608	13936
1966	56.7	1.6	31.8	10.0	212.8	6.8	19.0	18.4	63.2		219.1	18.88	11606	13284
1965	56.7		30.3	15.0	196.0		23.9	11.8	56.7		205.6	17.73	11596	13912
1964	54.8		30.3		186.7		26.9		47.6		197.3	17.02	11594	8744
1963	60.8		2.9	15.0	164.0		28.6		34.9	.4	178.8	15.45	11574	7863
1962	47.6		6.5	9.0	146.2	.5	30.4		29.4	.5	149.5	12.92	11572	7815
1961	50.6		6.5	10.0	125.8	.5	31.7		24.7	.3	136.7	11.81	11572	7537
1960	50.9		6.4		120.0	.6	32.4		21.3	.3	123.9	10.73	11542	7176

(4) Statistics on shares adjusted for share subdivision in May 1966.
(5) Average of shareholders' equity plus long term debt less unamortized debenture expense at beginning and end of year.

THE ALGOMA STEEL CORPORATION, LIMITED

SALES OFFICES	Sault Ste. Marie, Ontario Saint John, New Brunswick Montreal, Quebec Toronto, Ontario Hamilton, Ontario Windsor, Ontario Winnipeg, Manitoba Vancouver, British Columbia
PRODUCTS	Algoma Sinter Coke Coal Chemicals Pig Iron Ingots Blooms, Billets and Slabs Heavy and Light Rails Rail Fastenings Heavy Structurals Parallel Flange Beams Light Structurals Carbon Merchant Bars Reinforcing Bars Tube Rounds Grinding Balls and Rods Sheared Plate Universal Plate Hot Rolled Sheet and Strip Cold Rolled Sheet and Strip Electrical Sheet and Strip Skelp